

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1752 - HB 1669

January 27, 2014

SUMMARY OF BILL: Exempts from state and local sales tax sales of unmanned aircraft systems used in connection with sowing, planting, growing, monitoring, managing or harvesting farm products and nursery stock. Defines unmanned aircraft system as an unmanned aircraft and the support elements and equipment required to operate the unmanned aircraft for its intended purposes, including, without limitation, communication links, control station, data and photographic recorder links, telemetry and navigation equipment.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$11,100/FY13-14
\$70,200/FY14-15 and FY15-16
\$209,900/FY16-17
\$543,900/FY17-18
\$894,200/FY18-19 and Subsequent Years

Decrease Local Revenue – Net Impact – \$4,500/FY13-14
\$28,700/FY14-15 and FY15-16
\$85,600/FY16-17
\$222,000/FY17-18
\$364,900/FY18-19 and Subsequent Years

Assumptions:

- According to the Department of Agriculture (DOA), there are approximately 76,000 farms in Tennessee.
- Based on data provided by the Department of Revenue (DOR) and DOA, it is estimated that the number of unmanned aircraft systems purchased will be: 95 in FY14-15, 95 in FY15-16, 284 in FY16-17, 736 in FY17-18, and 1,210 in FY18-19 and subsequent years. Due to the effective date of this bill (upon becoming a law), it is estimated that 15 unmanned aircraft systems purchases will be made in FY13-14.
- The average price of an unmanned aircraft system is estimated to be \$11,500. This number is estimated to remain constant into perpetuity.
- Total taxable sales are estimated to be: \$172,500 (15 x \$11,500) in FY13-14, \$1,092,500 (95 x \$11,500) in FY14-15 and FY15-16, \$3,266,000 (284 x \$11,500) in FY16-17,

\$8,464,000 (736 x \$11,500) in FY17-18, and \$13,915,000 (1,210 x \$11,500) in FY18-19 and subsequent years.

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% $[(5.5\%/7.0\%) \times 4.603\%]$.
- The net decrease in state sales tax revenue as a result of the proposed exemption is estimated to be:
 - \$11,638 $[(\$172,500 \times 7.0\%) - (\$172,500 \times 7.0\% \times 3.617\%)]$ in FY13-14;
 - \$73,709 $[(\$1,092,500 \times 7.0\%) - (\$1,092,500 \times 7.0\% \times 3.617\%)]$ in FY14-15 and FY15-16;
 - \$220,351 $[(\$3,266,000 \times 7.0\%) - (\$3,266,000 \times 7.0\% \times 3.617\%)]$ in FY16-17;
 - \$571,050 $[(\$8,464,000 \times 7.0\%) - (\$8,464,000 \times 7.0\% \times 3.617\%)]$ in FY17-18;
 - \$938,819 $[(\$13,915,000 \times 7.0\%) - (\$13,915,000 \times 7.0\% \times 3.617\%)]$ in FY18-19 and subsequent years.
- The total decrease in local sales tax revenue as a result of the proposed exemption is estimated to be:
 - \$4,750 $[(\$172,500 \times 2.5\%) + (\$172,500 \times 7.0\% \times 3.617\%)]$ in FY13-14;
 - \$30,079 $[(\$1,092,500 \times 2.5\%) + (\$1,092,500 \times 7.0\% \times 3.617\%)]$ in FY14-15 and FY15-16;
 - \$89,919 $[(\$3,266,000 \times 2.5\%) + (\$3,266,000 \times 7.0\% \times 3.617\%)]$ in FY16-17;
 - \$233,030 $[(\$8,464,000 \times 2.5\%) + (\$8,464,000 \times 7.0\% \times 3.617\%)]$ in FY17-18; and
 - \$383,106 $[(\$13,915,000 \times 2.5\%) + (\$13,915,000 \times 7.0\% \times 3.617\%)]$ in FY18-19 and subsequent years.
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- Total tax savings are estimated to be: \$16,388 (\$11,638 + \$4,750) in FY13-14, \$103,788 (\$73,709 + \$30,079) in FY14-15 and FY15-16, \$310,270 (\$220,351 + \$89,919) in FY16-17, \$804,080 (\$571,050 + \$233,030) in FY17-18, and \$1,321,925 (\$938,819 + \$383,106) in FY18-19 and subsequent years.
- The net increase in state sales tax revenue, as a result of 50 percent of tax savings being re-spent in the economy, is estimated to be:
 - \$553 $[(\$16,388 \times 50.0\% \times 7.0\%) - (\$16,388 \times 50.0\% \times 7.0\% \times 3.617\%)]$ in FY13-14;
 - \$3,502 $[(\$103,788 \times 50.0\% \times 7.0\%) - (\$103,788 \times 50.0\% \times 7.0\% \times 3.617\%)]$ in FY14-15 and FY15-16;
 - \$10,466 $[(\$310,270 \times 50.0\% \times 7.0\%) - (\$310,270 \times 50.0\% \times 7.0\% \times 3.617\%)]$ in FY16-17;
 - \$27,125 $[(\$804,080 \times 50.0\% \times 7.0\%) - (\$804,080 \times 50.0\% \times 7.0\% \times 3.617\%)]$ in FY17-18; and

- \$44,594 [(\$1,321,925 x 50.0% x 7.0%) - (\$1,321,925 x 50.0% x 7.0% x 3.617%)] in FY18-19 and subsequent years.
- The total increase in local sales tax revenue, as a result of 50 percent of tax savings being re-spent in the economy, is estimated to be:
 - \$226 [(\$16,388 x 50.0% x 2.5%) + (\$16,388 x 50.0% x 7.0% x 3.617%)] in FY13-14;
 - \$1,428 [(\$103,788 x 50.0% x 2.5%) + (\$103,788 x 50.0% x 7.0% x 3.617%)] in FY14-15 and FY15-16;
 - \$4,271 [(\$310,270 x 50.0% x 2.5%) + (\$310,270 x 50.0% x 7.0% x 3.617%)] in FY16-17;
 - \$11,069 [(\$804,080 x 50.0% x 2.5%) + (\$804,080 x 50.0% x 7.0% x 3.617%)] in FY17-18; and
 - \$18,197 [(\$1,321,925 x 50.0% x 2.5%) + (\$1,321,925 x 50.0% x 7.0% x 3.617%)] in FY18-19 and subsequent years.
- The net decrease in state sales tax revenue as a result of this bill is estimated to be:
 - \$11,085 (\$11,638 - \$553) in FY13-14;
 - \$70,207 (\$73,709 - \$3,502) in FY14-15 and FY15-16;
 - \$209,885 (\$220,351 - \$10,466) in FY16-17;
 - \$543,925 (\$571,050 - \$27,125) in FY17-18; and
 - \$894,225 (\$938,819 - \$44,594) in FY18-19 and subsequent years.
- The net decrease in local sales tax revenue as a result of this bill is estimated to be:
 - \$4,524 (\$4,750 - \$226) in FY13-14;
 - \$28,651 (\$30,079 - \$1,428) in FY14-15 and FY15-16;
 - \$85,648 (\$89,919 - \$4,271) in FY16-17;
 - \$221,961 (\$233,030 - \$11,069) in FY17-18; and
 - \$364,909 (\$383,106 - \$18,197) in FY18-19 and subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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